MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BBF 1014 – FINANCIAL MANAGEMENT I

(All sections / Groups)

2 JUNE 2016
2.30p.m – 4.30p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages.
2. Answer all the 6 questions.
3. Please write your answer in the answer booklet provided.

QUESTION 1

a) Melissa has planned to further her study in a vocational college with a scholarship. It is estimated RM7500 per year to attend the vocational college into perpetuity. Melissa expects to give the college the funding in 12 years and will accumulate it by making equal annual deposits into an account. The rate of interest is expected to be 9 percent for all future periods. Determine how large must be the funding, and how much must Melissa deposit at the end of each of the next 12 years to accumulate this require amount? (6 marks)

b) Jonny Clare just signed a RM20,000 real estate mortgage loan that is to be repaid to a commercial bank. The annual rate of interest on the loan is 8 percent. The loan is to be repaid in equal monthly payments over 3 years Determine the firm's annual loan principal payment and interest expense will Jonny have in second years of this loan. (8 marks)

c) Your brother work as a wealth financial planner. He has prepared a retirement plan proposal for you. Based on this proposal, you would need RM55,000 per year during your retirement years in order to live comfortably. You will retire 15 years from now and expect a 25-year retirement period. Determine how much you suppose to deposit now in a bank account paying 8 percent to reach financial happiness during retirement. (8 marks)

d) Winnie plans to fund her individual retirement account, beginning today, with 20 annual deposits of RM2,000, which she will continue for the next 20 years. If she can earn an annual compound rate of 8 percent on her deposits. Determine the amount in the account upon retirement. (3 marks)

e) Tommy has purchased a painting for RM300 ten years ago. The painting is now worth RM1,020. Tommy could have deposited RM300 in a savings account paying 12 percent interest compounded annually. Determine which of these two options would have provided Tommy with a higher return. (5 marks)

[TOTAL: 30 MARKS]

QUESTION 2

a) Based on the term structure theories, briefly discuss how is the slope of the yield curve affected by the liquidity preferences? (5 marks)

b) Grande Provence Enterprise has 3.5 percent coupon bonds outstanding with a current market price of RM789.50. The yield to maturity is 7.20 percent and the face value is RM1,000. Interest is paid semi-annually. Determine how many years is it until these bonds mature? (5 marks)

Continued...

c) Alfranco Corporation wants to issue fifty 20-year zero-coupon bonds with RM1,000 face value. If each bond is priced to yield 6 percent semi-annual, determine how much Alfranco will receive (ignoring issuance costs) when the bonds are first sold. (5 marks)

[TOTAL: 15 MARKS]

QUESTION 3

a) Determine the value of a share of common stock of Rexi's Patisserie Company whose most recent dividend was RM2.50 and is expected to grow at 3 percent per year for the next 5 years, after which the dividend growth rate will increase to 6 percent per year indefinitely. Assume 10 percent required rate of return. (10 marks)

b) In response to the stock market's reaction to its dividend policy, the Plantex Enterprise has decided to increase its dividend payment at a rate of 4 percent per year. The firm's most recent dividend is RM3.25 and the required rate of interest is 9 percent. Determine what is the maximum you would be willing to pay for 20 shares of the stock? (5 marks)

[TOTAL: 15 MARKS]

QUESTION 4

a) Cicerello' firm has decided to include two securities to the portfolio of the firm. If half proportions of the portfolio is invested in a risky security that has the amount of systematic risk of 2 as an average risky security. Explain how the beta of a portfolio can equal the market beta. (5 marks)

b) The Zen coffee shop is in process of purchasing a high quality coffee maker machine. Assuming the following rate of returns and corresponding probabilities for the machine, compute its expected rate of return, standard deviation and coefficient of variation.

Coffee maker machine	
Rate of Return	**Probability**
10%	30%
15%	40%
20%	30%

(6 marks)

Continued...

c) Drumex Berhad is considering investment in a project with beta coefficient of 1.75. As a financial advisor, what would you recommend the firm to do if this investment has an 11.5 percent rate of return, risk-free rate is 5.5 percent, and the rate of return on the market portfolio of assets is 8.5 percent? (4 marks)

[TOTAL: 15 MARKS]

QUESTION 5

a) Lexis Berhad is analyzing the performance of its cash management. On the average, after the purchase of raw materials, the firm holds inventory for 70 days before selling, pays its suppliers in 30 days, and collects its receivables in 10 days from the time of sale. The firm has a current annual outlay of RM 1,500,000 on operating cycle investments. The firm currently pays 12 percent for its negotiated financing. *(Assume a 360 day year.)*

(i) Determine the number of days that the Lexis Berhad's resources are tied up before they can collect on their receivables. (2 marks)

(ii) If the operating cycle is reduced by 15 days, how much can the firm save in its operating cycle investments? (5 marks)

b) When the ratio of current assets-to-total assets ratio increases, what is its effect on profit and risk? Briefly explain. (5 marks)

c) A fruits supplier uses 2,600 baskets a month for fresh fruits shipment. Determine the optimum order quantity of baskets assuming the order costs per order is RM300 and it costs RM3 to carry a unit of basket in inventory per period. (3 marks)

[TOTAL: 15 MARKS]

QUESTION 6

a) Briefly discuss what is the difference between line of credit and revolving credit agreement? (6 marks)

b) A commercial bank lends a firm RM500,000 business loan for one year at 8 percent and requires compensating balances of 10 percent of the face value of the loan. Determine the effective annual interest rate associated with this loan. (4 marks)

[TOTAL: 10 MARKS]

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